

SKYLINE HOTELS LIMITED
AND
WHOLLY OWNED SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENT



The Canadian Chain

TORONTO • MONTREAL • OTTAWA • BROCKVILLE

YEAR ENDED DECEMBER 31, 1968

WITH 1967 COMPARISONS

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No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereby and any representation to the contrary is an offence. These securities are being offered for sale only in the provinces of Alberta and Ontario.

New Issue

File

SKYLINE HOTELS LIMITED

(incorporated under the laws of Ontario)



420,000 common shares

(without par value)

	Price to Public	Underwriting Discount	Proceeds to Company (1)
Per share.....	\$7.00	45¢	\$6.55
Total.....	\$2,940,000	\$189,000	\$2,751,000

(1) Before deducting expenses of issue, estimated at \$40,000.

The speculative nature of the securities is referred to on page 10 under the heading "Future Operations".

There is at present no market for the shares of the Company and the price of this offering was determined by negotiation between the Company and the Underwriters.

We, as principals, offer these common shares subject to prior sale, if, as and when issued by the Company and accepted by us subject to the approval of all legal matters on behalf of the Company by Campbell, Godfrey & Lewtas, Toronto and on our behalf by Manley, Grant, Armstrong & Camisso and by Thomson, Rogers, Toronto.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that share certificates in definitive form will be available for delivery on or about October 31, 1968.

MOSS, LAWSON & CO. LIMITED

STANDARD SECURITIES LIMITED

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The Company

Skyline Hotels Limited (the "Company") was incorporated as a private company under the laws of Ontario by letters patent dated December 7, 1953 with the name Etobicoke Hotel Holdings Limited. The Company's name was changed to Skyline Hotels (Canada) Limited by supplementary letters patent dated November 5, 1962. By supplementary letters patent dated September 12, 1968 the present corporate name was adopted, the Company was converted to a public company and the authorized and issued capital were changed to their present form.

The head office and principal office are at Skyline Hotel, 655 Dixon Road, Etobicoke, Ontario.

History and Business

The Company, directly and through its wholly owned subsidiary, Skyline Hotels (Montreal) Limited, operates as "Skyline Hotels—The Canadian Chain", comprising four hotels in Toronto, Montreal, Brockville and Ottawa with a total of 1,087 guest rooms.

Skyline Toronto

Opened in 1954 with 24 rooms, Skyline Toronto has undergone continuous expansion to the present 343 rooms.

Even though the number of guest rooms available has increased sharply during the past five years, the occupancy percentage has also improved. The following table shows the guest rooms available in the hotel at the end of each period and the occupancy percentage for the rooms available during the period.

	1963	1964	1965	1966	1967	(8 months) 1968
Guest Rooms	197	197	254	343	343	343
Occupancy	76%	83%	86%	86%	90%	93%

This achievement is attributed by management to the hotel's convenient location, close to Toronto International Airport and downtown and crosstown expressways. Skyline Toronto has kept pace with its guest room expansion by enlarging its convention and meeting facilities to accommodate 2,200 delegates, making this hotel one of the major convention centres in Toronto. Ample paved parking space is provided. Other amenities include an indoor pool, a health club, three restaurants and specialty shops. A feature of the operation has been the successful development of two theme lounges with entertainment—Diamond Lil's and The Pub.

A description of the currently proposed expansion of Skyline Toronto appears on page 5.

Skyline Montreal

Skyline Montreal was opened in 1961 and enlarged a year later by the addition of three floors of rooms and expanded convention facilities. It now has a total of 233 guest rooms, together with convention and meeting facilities (equipped for simultaneous translation) for 970 delegates, three restaurants and two lounges — Diamond Lil's and The Pub.

Like the Toronto hotel, Skyline Montreal is located close to the international airport and crosstown and downtown expressways and has liberal paved parking space.

Skyline Montreal is operated by the Company's subsidiary, Skyline Hotels (Montreal) Limited. The following table shows its growth in guest room occupancy over recent years.

	1963	1964	1965	1966	1967	(8 months) 1968
Occupancy	63%	69%	72%	72%	86% (1)	74%

(1) reflects Expo

Skyline Brockville

Opened in 1963, Skyline Brockville has 74 guest rooms, meeting facilities for 200, a dining room, a coffee shop and two lounges, including The Pub, all supplemented by convenient paved parking.

It is located between Toronto and Montreal at the junction of Highways 401 and 29, so that it enjoys a proximity to the Thousand Islands vacation area, from which it derives additional business from vacationers.

The hotel's meeting facilities are utilized by local industries and social groups as well as visitors.

The occupancy of the hotel in recent years is shown in the following table:

	1963	1964	1965	1966	1967	(8 months) 1968
Occupancy	51%	58%	65%	65%	70%	63%

Skyline Ottawa

Skyline Ottawa is the newest and largest hotel in the chain. It was opened in 1967 and has 437 guest rooms, all equipped with colour television and four-season air conditioning. It is at 101 Lyon Street in downtown Ottawa, two blocks from Parliament Hill, where the 25-storey tower, the tallest building in Ottawa, dominates the area.

The 13 convention and meeting rooms, with facilities for simultaneous translation, will accommodate 3,000 delegates. Skyline Ottawa has already attracted widespread attention as host to a number of major conventions and other functions. The hotel's many amenities include five restaurants, three lounges — Diamond Lil's, The Pub and Top of the Hill, a health club, an indoor swimming pool, a shopping plaza and indoor parking for 1,250 cars.

The occupancy rate of the hotel in its first full year of operation was 64%.

Markets

The proximity to international airports of Skyline Toronto and Skyline Montreal has made them popular with air travellers and crews of major airlines. Continuing arrangements for the accommodation of crews and of delayed flight passengers are in effect with Air Canada, American Airlines, British Overseas Airways, Canadian Pacific Airlines, Eastern Airlines, Mohawk Airlines and other major international carriers. Seasonal charter flight crews are also accommodated.

A sales force of 11, supported by convention and social planners in each hotel, concentrates on obtaining and servicing convention, meeting and social business in both Canada and the United States. The construction of Skyline Ottawa and the expansion of Skyline Toronto will enable the Company in those centres to serve most major conventions. A reciprocal arrangement with a large U.S. hotel chain aids coverage in the United States.

Individual transient business, a large portion of the Company's sales, is encouraged by cooperation with all recognized travel agents, Telex and TWX reservation confirmation systems and an active advertising program.

Internal Controls

Strong internal controls are essential to a successful hotel operation. Accordingly, records of sales by department and of food and beverage costs are available to management on a daily basis for comparison with budgets and acceptable percentages. This allows prompt attention to any significant deviation.

Labour Relations

The chain has approximately 1,200 full time employees and a permanent part time banquet staff. Skyline Montreal has a three year union contract expiring December 1968 and Skyline Ottawa a three year union contract expiring September 1970. The Skyline hotels have never experienced any strikes or work stoppages and consider their employee relations to be excellent.

Growth

The following table shows the recent growth of the business:

	1963	1964	1965	1966	1967 (1)	6 months to June 30 1967 (1)	1968
Room nights available	185,862	184,461	197,393	224,844	287,647	117,616	197,431
Occupancy	66%	73%	77%	78%	81%	86%	74%
Sales \$000	4,774	5,405	6,213	7,034	9,661	3,953	6,361
Profit (Loss) before income taxes—Total	\$ (57,444)	46,727	152,964	189,478	362,589	274,546	9,367(2)
—Per share(4)	\$ (.05)	.04	.14	.17	.32	.25	.01
Funds from operations (3)							
—Total	\$ 229,288	353,519	465,791	546,226	812,266	465,926	309,739
—Per share(4)	\$.20	.32	.42	.49	.73	.42	.28

(1) Reflects Expo.

(2) Depreciation and amortization for six months June 30, 1968 were \$102,302 higher than for the six months June 30, 1967 as indicated in note 7 to consolidated financial statements on page 20.

(3) Funds from operations represents net earnings adjusted for charges not requiring outlay of funds and is detailed in the Consolidated Statement of Source and Application of Funds on page 16.

(4) Per share figures based on 1,120,000 shares to be outstanding.

Expansion Program

The Company has contracted to construct a 12-storey tower addition to Skyline Toronto which will provide space for larger public facilities and 240 guest rooms. The entire cost of the addition, including furnishings, is estimated by management at approximately \$3,250,000 (in addition to preliminary costs of \$64,429 incurred to June 30, 1968).

The Company has entered into agreements with Janin Building & Civil Works Ltd. dated September 18, 1968 and October 23, 1968 for the entire cost of the addition, excluding furnishings and architects' fees, in the amounts of \$660,000 and \$2,053,000. The cost of the furnishings and the balance of the architects' fees are estimated by management not to exceed \$537,000.

The Company has obtained from institutional investors written offers to purchase at par \$4,000,000 of the Company's first mortgage bonds and approximately \$3,400,000 of its debentures. The Company anticipates that the conditions of these offers — among which are included the approval of title and all other legal matters and (in the case of each offer to purchase bonds) the due sale of the entire \$4,000,000 issue — will be duly fulfilled, and intends to issue and sell the debentures by January 31, 1969 and the bonds in the latter part of that year. The proceeds after expenses of issue will be used as to approximately \$3,250,000 for the Toronto expansion program and as to approximately \$3,915,000 to retire existing funded obligations. Particulars of the obligations to be so issued and retired are set out on page 7 under the heading "Capitalization" and also on page 19 in note 5 to the consolidated financial statements.

Property

Toronto

The Company owns the land and buildings comprising Skyline Toronto. The site consists of approximately 10 acres, with 550 feet facing Dixon Road and with a depth of 1,220 feet. The building is of steel frame and concrete construction. All front bedrooms have large balconies with sliding glass doors. Guest rooms and all function rooms are air conditioned. The ground floor, where all function rooms and service facilities are located, covers about 108,160 square feet. The three bedroom floors amount to about 147,280 square feet, for a total of about 255,440 square feet.

The new 12-storey tower will consist of 11 floors of guest rooms and a panoramic lounge on the top floor. The structure, which will be elevated 20 feet above ground level, will be of reinforced concrete with a white precast exterior.

Montreal

Skyline Montreal is at 6600 Côte de Liesse Road, Ville St. Laurent, Montreal. The 5½ acre site has a frontage of 292 feet on Côte de Liesse and a depth of 967 feet. The hotel is constructed of steel frame and concrete and consists of nine floors with a total of about 216,170 square feet.

Skyline Hotels (Montreal) Limited, the Company's subsidiary, operates the hotel under a net lease from Francana Real Estate Limited, for an annual rent of \$279,973 during the initial term expiring February 28, 1991. The lessee has the option to extend the term for a further ten years at a rental based on the current rate, adjusted for changes in the cost of living, and has a right of first refusal upon any proposed sale of the hotel.

Brockville

Skyline Brockville is at 100 Stewart Boulevard, Brockville. The hotel, which has six floors, is constructed of steel and concrete and is leased to the Company by Stewart Blvd. Hotel Limited until January 3, 1983 under a net lease providing for an annual rent of \$94,400. The Company has the right, exercisable at the expiry of the tenth, fifteenth and nineteenth year of the term, to purchase the land and building for \$1,093,400 and the right of first refusal if they are to be sold to others.

Ottawa

Skyline Ottawa, which forms part of the Place de Ville, extends an entire city block on Lyon Street with a depth of 235 feet. The hotel consists of a full-site three-storey podium and a 25-storey tower, with a total of about 364,530 square feet of floor space. Construction is of reinforced concrete with a white precast exterior.

The building is under net sublease to the Company from Campeau Corporation Limited until September 21, 1987 at a basic annual rent of \$862,000 with provision for increase after September 1969 computed on the basis of occupancy rates. The Company has options to renew for two further ten year periods at the same rent and has the right of first refusal on any sale of the building.

General

At each of the leased hotels, the Company or its subsidiary has a substantial investment in furniture, fixtures, operating equipment and leasehold improvements.

Capitalization

	Authorized	Outstanding			
		June 30 1968	August 31 1968	Pro forma as at June 30, 1968 after share issue and debenture issue (1)	Pro forma as at June 30, 1968 after issue of first mortgage bonds (1)
SECURED OBLIGATIONS					
Bank Indebtedness (2)	—	\$ 973,263	\$1,026,710	\$ 500,000	\$ 500,000
7½% First Mortgage due January 1, 1973 (3)	\$1,750,000	1,513,604	1,504,255	1,513,604	—
9% First Mortgage Bonds due 1979 (4)	—	—	—	—	4,000,000
9¼% Debenture due June 15, 1975 (5)	1,746,023	1,605,361	1,592,921	—	—
9½% Debenture due June 15, 1975 (5)	850,000	792,659	787,382	—	—
9.98% Debenture due 5 years after advance (6)....	—	—	—	3,400,000	3,400,000
12% Third Mortgage due May 31, 1969 (7)	750,000	750,000	750,000	—	—
12% Conditional Sales Agreements (8)	1,087,409	1,041,326	1,027,562	1,041,326	1,041,326
8% Notes Payable.....	—	21,000	21,000	—	—
Instalment Contracts due to 1972 (9)	330,403	311,074	296,250	311,074	311,074
CAPITAL STOCK					
Common Shares without par value (10)	3,000,000shs.	700,000shs. (\$1,030)	700,000shs. (\$1,030)	1,120,000shs. (\$2,752,030)	1,120,000shs. (\$2,752,030)

NOTES:

- (1) See note 1 to consolidated financial statements on page 17.
- (2) Includes bank indebtedness of Company's subsidiary. Secured by general assignments of book debts of the Company and its subsidiary.
- (3) Now secured by first mortgage of a portion of the real property, and of all the furnishings and equipment, of Skyline Toronto.
- (4) Proposed to be issued during 1969 and to be secured by first mortgage of the real property, and furnishings and equipment, of Skyline Toronto. Principal and interest payable in blended monthly payments of \$35,570 each.
- (5) Now secured by second mortgage of Skyline Toronto real property, furnishings and equipment and by a first floating charge on the undertaking and all other assets of the Company, except furnishings and equipment at Skyline Brockville. Payable in monthly payments.
- (6) Proposed to be issued on or before January 31, 1969 and to be secured by second mortgage on Skyline Toronto real property, furnishings and equipment and by a first floating charge on the undertaking and all other assets of the Company, except furnishings and equipment at Skyline Brockville. Principal and interest to be payable in equal blended monthly payments of \$36,077 with a final payment at maturity of \$2,791,599.
- (7) Now secured by third mortgage of Skyline Toronto real property, furnishings and equipment.
- (8) Covering furnishings of Skyline Ottawa. Payable in total monthly payments of \$18,660 with a total final payment of \$489,988.
- (9) Payable in blended monthly payments of principal and interest.
- (10) After giving effect to supplementary letters patent dated September 12, 1968.
- (11) See note 9 to the consolidated financial statements on page 21 for information concerning the extent of leasehold obligations.

Management

Directors & Officers

<u>Name and Address</u>	<u>Office</u>	<u>Principal Occupation</u>
WILLIAM ROBERT HODGSON..... 21 Lorraine Gardens, Islington	President &..... Director	President, Skyline Hotels Limited
CHARLES ANGUS MCKECHNIE..... 59 Waterford Drive, Weston	Vice-President..... & Director	Vice-President, Skyline Hotels Limited
KENNETH CHARLES DUTTON..... 77 Dunedin Drive, Toronto	Vice-President..... & Director	Vice-President and General Manager, Skyline Hotels Limited
JEAN CAMILLE DECAEN..... 3 Kearney Drive, Rexdale	Secretary-Treasurer..... & Director	Secretary-Treasurer, Skyline Hotels Limited
JOHN BORDEN HAMILTON, O.C..... 9 Deer Park Crescent, Toronto	Director.....	Senior Partner, Hamilton, Torrance, Stinson, Campbell, Nobbs & Woods, Barristers & Solicitors
FRANK FREEMAN HULL..... 45 Danville Drive, Willowdale	Director.....	Financial Consultant
JOSEPH SEDGWICK, O.C..... 158 Forest Hill Road, Toronto	Director.....	Counsel, Smith, Rae, Greer, Barristers & Solicitors

The directors and officers have held their present business or professional affiliations, as the case may be, for the past five years, except that prior to 1966 Frank Freeman Hull was Assistant General Manager of a Canadian chartered bank.

Remuneration

The aggregate direct remuneration paid or payable by the Company and its subsidiary to the directors and senior officers of the Company for the fiscal year ended December 31, 1967 was \$114,440, and for the eight months ended August 31, 1968 was \$72,910. There are no pension arrangements for any director or officer other than the Canada Pension Plan.

Principal Shareholder

William R. Hodgson, president of the Company, is the beneficial owner of all the 700,000 common shares outstanding prior to this issue. After this issue he will own 62.4% of the outstanding shares.

The Offering

Underwriting

By agreement dated August 27, 1968 between the Company, Standard Securities Limited and Moss, Lawson & Co. Limited (the "Underwriters"), the Company agreed to sell and the Underwriters, as principals, agreed to purchase the 420,000 common shares offered to the public hereby, at the price of \$2,751,000 (\$6.55 per share) payable in cash against delivery on or about November 7, 1968. The obligations of the Underwriters are several only and the liability of each is limited to 50%.

Description of Common Shares

Each holder of common shares without par value of the Company will be entitled to one vote for each common share held and to share rateably in any dividends or other distributions to holders of such shares. All common shares to be outstanding upon completion of the present financing will be fully paid and non-assessable.

Use of Proceeds of Issue

The proceeds to the Company of the issue of the common shares offered hereby, amounting to \$2,751,000, will be applied as follows:

Repayment of third mortgage	\$ 750,000
Repayment of notes payable	21,000
Reduction of bank indebtedness	473,263
Payment of accounts payable	1,000,000
Payment of expenses of the issue	40,000
Increase in cash	466,737
	<u>\$2,751,000</u>

Dividend Record

Distributions have been made on the common shares outstanding (before giving effect to the sale of the common shares offered hereby) during the last five years as follows:

	<u>1966</u>	<u>1967</u>	<u>1968</u>
By cash dividend	\$46,000	\$90,000	
By issue (as stock dividend) and redemption of preference shares		39,100	\$76,500
	<u>\$46,000</u>	<u>\$129,100</u>	<u>\$76,500</u>

There is no present intention to pay dividends on the common shares hereby offered.

Material Contracts

The only material contracts entered into by the Company within the past two years are:

- (a) Contract with Janin Building & Civil Works Ltd. dated November 9, 1966 in the amount of \$59,950 in connection with the construction of two squash courts at Skyline Toronto.
- (b) Contract with Janin Building & Civil Works Ltd. dated July 27, 1967 in the amount of \$46,702 for a completed renovation to Skyline Toronto.
- (c) Sublease for Skyline Ottawa referred to on page 6 under the heading "Ottawa".
- (d) Six mortgages dated September 29, 1967, ranking on a parity with one another as first mortgages, by which to secure a total of \$22,050,000 Campeau Corporation Limited mortgaged its leasehold interest in the Place de Ville, in which Skyline Ottawa is located, to (i) The Standard Life Assurance Company, (ii) The Royal Trust Company, Trustees for The Bell Telephone Company of Canada Pension Fund, (iii) The Mutual Life Assurance Company of Canada, (iv) The Pension Fund Society of a Canadian chartered bank, (v) The Royal Trust Company, (vi) The Royal Trust Company acting for and on behalf of The Imperial Trustees of the Retirement Plan and Savings Plan of Imperial Oil Limited and the Imperial Oil Annuity Plan (1958). The Company and others are parties to each of these mortgages as joint and several guarantors. The Company's obligation expires November 17, 1971.
- (e) Contracts with Eaton's of Canada Limited dated June 2, 1967 and October 8, 1968 aggregating \$1,087,409 for furnishing Skyline Ottawa.

- (f) Lease between the Company and RCA Victor Company, Ltd. for a term of five years commencing September 1, 1967 with a monthly rental of \$4,638 in respect of colour television receivers installed in Skyline Ottawa.
- (g) Contract with Webb, Zerafa, Menkes, Architects, dated January 15, 1968 for professional services in connection with the proposed addition to Skyline Toronto under which the amount of fees payable are based upon a percentage of the cost of construction.
- (h) Contract with Janin Building & Civil Works Ltd. dated September 18, 1968 referred to on page 5 under the heading "Expansion Program" in the amount of \$660,000.
- (i) Contract with Janin Building & Civil Works Ltd. dated October 23, 1968 referred to on page 5 under the heading "Expansion Program" in the amount of \$2,053,000.
- (j) Underwriting agreement referred to on page 8 under the heading "Underwriting".

In addition to the above contracts, the Company has received the offers to purchase, referred to on page 5 under the heading "Expansion Program", \$4,000,000 of its first mortgage bonds and \$3,400,000 of its debentures. The offers to purchase the bonds are from Bell Canada Pension Fund, Du Pont of Canada Limited Pension Fund, The Royal Trust Company, The Standard Life Assurance Company and a Canadian chartered bank. The offer to purchase the debenture is from IAC Business Development Funds (Ontario) Ltd.

Copies of these contracts and offers may be inspected at the head office of the Company in ordinary business hours during the course of primary distribution of the common shares hereby offered and for 30 days thereafter.

Pending Legal Proceedings

There are no legal proceedings known by the Company to be pending or threatened against the Company or its subsidiary which, in the opinion of the Company, are material or where the liability is not fully covered by insurance, except as follows.

On January 25, 1968, the Company instituted action in the Supreme Court of Ontario against New Castle Products (Canada) Limited and Modernfold of Canada Limited seeking damages of \$100,000 for breach of contract in respect of equipment supplied by the defendants which has not been accepted by the Company and for the cost of replacing this equipment. The defendants have counterclaimed for \$56,765, being the unpaid purchase price of the equipment and alleged damages suffered by them, plus interest and, in respect of the same equipment, have also instituted a mechanics' lien action against the Company on April 23, 1968 for \$45,765.

Future Operations

The period 1967 through 1969 will mark a radical change in the scope and extent of the Company's undertaking. The addition during the period of Skyline Ottawa and the new tower of Skyline Toronto will have increased the number of the Company's guest rooms by over 104%. The major expenditures involved in these new facilities will have resulted in the incurring of substantial indebtedness, as described specifically for the Toronto addition under the heading "Expansion Program" on page 5 and as described generally for the Company under the heading "Capitalization" on page 7. The Company's guarantee of debt in connection with the Place de Ville in Ottawa is described on page 21 in note 10 to the consolidated financial statements and on page 9 under the heading of "Material Contracts".

Future earnings will depend largely on the operating results of the new establishments, so that reported earnings for past fiscal years are not necessarily a reliable indication of the Company's prospects.

Auditors, Transfer Agent and Registrar

The auditors of the Company are Perlmutter, Orenstein, Giddens, Newman & Co., Chartered Accountants, 121 Richmond Street West, Toronto.

The transfer agent for the common shares of the Company will be The Royal Trust Company at its principal office in Toronto and Calgary and the registers of transfers for these shares will be kept at these offices.

Purchasers' Statutory Rights of Withdrawal and Rescission

The Securities Act, 1967 (Alberta) and The Securities Act, 1966 (Ontario) provide, in effect, that where a security is offered to the public in the course of primary distribution, in certain events and subject to certain conditions,

(a) a purchaser will not be bound by a contract for the purchase of such security if written or telegraphic notice of his intention not to be bound is received by the vendor or his agent not later than midnight on the second business day after the final prospectus or amended final prospectus offering such security is received or is deemed to be received by the purchaser or his agent, and

(b) a purchaser has the right to rescind a contract for the purchase of such security, if the final prospectus and any amended final prospectus offering such security, as of the date of receipt, contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made, but no action to enforce this right can be commenced by a purchaser after the expiration of 90 days from the later of the date of such contract or the date on which such final prospectus or amended final prospectus is received or is deemed to be received by the purchaser or his agent.

Reference is made to sections 63 and 64 of each of The Securities Act, 1967 (Alberta) and The Securities Act, 1966 (Ontario) for the complete text of the provisions under which the above-mentioned rights are conferred.

Skyline Hotels Limited and Wholly Owned Subsidiary
Consolidated Balance Sheet and Pro Forma Balance Sheets
June 30, 1968

Assets

	<u>Balance Sheet</u>	<u>Pro Forma Balance Sheet After Share Issue And Debenture Issue (note 1)</u>	<u>Pro Forma Balance Sheet After Issue of First Mortgage Bonds (note 1)</u>
CURRENT ASSETS			
Cash	\$ 20,749	\$ 707,362	\$ 707,362
Accounts receivable (after allowance of \$30,548) (note 4)	521,903	521,903	521,903
Inventories — at cost	333,870	333,870	333,870
Income taxes refundable	9,590	9,590	9,590
Prepaid expenses	222,636	222,636	222,636
Sundry	<u>27,269</u>	<u>27,269</u>	<u>27,269</u>
	<u>\$ 1,136,017</u>	<u>\$ 1,822,630</u>	<u>\$ 1,822,630</u>
FUNDS RESERVED FOR NEW TOWER	—	<u>\$ 773,104</u>	—
FIXED ASSETS (note 3)	<u>\$ 8,888,294</u>	<u>\$ 8,888,294</u>	<u>\$12,138,294</u>
OTHER ASSETS			
Special refundable tax	\$ 10,919	\$ 10,919	\$ 10,919
Unamortized financing costs	77,137	126,137	135,637
Hotel opening and establishment costs (after amortization of \$113,550) (note 7)	410,115	410,115	410,115
Organization expenses	7,440	7,440	7,440
Goodwill on consolidation	<u>86,280</u>	<u>—</u>	<u>—</u>
	<u>\$ 591,891</u>	<u>\$ 554,611</u>	<u>\$ 564,111</u>
Total Assets	<u><u>\$10,616,202</u></u>	<u><u>\$12,038,639</u></u>	<u><u>\$14,525,035</u></u>

Approved on behalf of the Board:

(Signed) W. R. Hodgson, Director

(Signed) J. C. DeCaen, Director

The notes to consolidated financial statements are an integral part of these statements.

Skyline Hotels Limited and Wholly Owned Subsidiary
Consolidated Balance Sheet and Pro Forma Balance Sheets
June 30, 1968

Liabilities

	<u>Balance Sheet</u>	<u>Pro Forma Balance Sheet After Share Issue And Debt Issue (note 1)</u>	<u>Pro Forma Balance Sheet After Issue of First Mortgage Bonds (note 1)</u>
CURRENT LIABILITIES			
Bank indebtedness (note 4)	\$ 973,263	\$ 500,000	\$ 500,000
Accounts payable	2,068,763	1,068,763	1,068,763
Notes and loans payable (including shareholder of \$17,786)	<u>110,786</u>	<u>110,786</u>	<u>110,786</u>
	<u>\$ 3,152,812</u>	<u>\$ 1,679,549</u>	<u>\$ 1,679,549</u>
LONG-TERM DEBT (note 5).....	<u>\$ 6,035,024</u>	<u>\$ 6,266,004</u>	<u>\$ 8,752,400</u>
Total Liabilities	<u>\$ 9,187,836</u>	<u>\$ 7,945,553</u>	<u>\$10,431,949</u>

Shareholders' Equity

CAPITAL STOCK (note 6).....	\$ 1,030	\$ 2,752,030	\$ 2,752,030
RETAINED EARNINGS.....	879,896	793,616	793,616
APPRAISAL INCREASE (note 3).....	<u>547,440</u>	<u>547,440</u>	<u>547,440</u>
	<u>\$ 1,428,366</u>	<u>\$ 4,093,086</u>	<u>\$ 4,093,086</u>
	<u>\$10,616,202</u>	<u>\$12,038,639</u>	<u>\$14,525,035</u>

The notes to consolidated financial statements are an integral part of these statements.

Skyline Hotels Limited and Wholly Owned Subsidiary
Consolidated Statement of Retained Earnings (Note 2)

	Fiscal Years Ended December 31st.				Six Months Ended June 30th.	
	1963	1964	1965	1966	1967	1968
BALANCE — Beginning of period	\$ 578,379	\$ 570,115	\$ 570,410	\$ 745,015	\$ 814,425	\$ 960,529
Add — Net earnings for the period	(8,264)	295	174,605	165,610	286,504	9,367
	<u>\$ 570,115</u>	<u>\$ 570,410</u>	<u>\$ 745,015</u>	<u>\$ 910,625</u>	<u>\$1,100,929</u>	<u>\$ 969,896</u>
DEDUCT — Dividends — cash	—	—	—	46,000	90,000	—
— stock (including tax thereon) ..	—	—	—	—	46,000	90,000
— Reduction in carrying value of advances to affiliate	—	—	—	50,200	4,400	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>\$ 96,200</u>	<u>\$ 140,400</u>	<u>\$ 90,000</u>
BALANCE — End of period	<u>\$ 570,115</u>	<u>\$ 570,410</u>	<u>\$ 745,015</u>	<u>\$ 814,425</u>	<u>\$ 960,529</u>	<u>\$ 879,896</u>

The notes to consolidated financial statements are an integral part of these statements.

Skyline Hotels Limited and Wholly Owned Subsidiary
Consolidated Statement of Earnings (Note 2)

	Fiscal Years Ended December 31st.			Six Months Ended June 30th.	
	1963	1964	1965	1966	1967
					(unaudited)
Sales	\$4,773,870	\$5,405,106	\$6,212,768	\$7,034,390	\$3,953,296
Cost of sales and operating expenses	4,256,886	4,721,874	5,419,087	6,095,344	3,274,927
Profit before interest, depreciation and amortization.....	\$ 516,984	\$ 683,232	\$ 793,681	\$ 939,046	\$ 678,369
Interest on long-term debt	216,856	284,013	286,654	341,796	197,822
Other interest	71,415	51,882	39,465	50,087	22,117
Depreciation and amortization (note 7)	286,157	300,610	314,598	357,685	183,884
	\$ 574,428	\$ 636,505	\$ 640,717	\$ 749,568	\$ 403,823
Earnings before income taxes	(57,444)	46,727	152,964	189,478	274,546
Income taxes (refundable) (note 8)	—	—	8,050	8,050	—
Earnings after income taxes paid	\$ (57,444)	\$ 46,727	\$ 144,914	\$ 181,428	\$ 274,546
Income tax reallocation (note 2)	(49,180)	46,432	(29,691)	15,818	10,528
NET EARNINGS.....	\$ (8,264)	\$ 295	\$ 174,605	\$ 165,610	\$ 264,018
					\$ 9,367

The notes to consolidated financial statements are an integral part of these statements.

Skyline Hotels Limited and Wholly Owned Subsidiary
Consolidated Statement of Source and Application of Funds (Note 2)

	Fiscal Years Ended December 31st.				Six Months Ended June 30th.	
	1963	1964	1965	1966	1967	1968
					(unaudited)	
SOURCE OF FUNDS						
Net earnings for the period	\$ (8,264)	\$ 295	\$ 174,605	\$ 165,610	\$ 286,504	\$ 9,367
Add — Charges not requiring outlay of funds						
Depreciation and amortization	286,157	300,610	314,598	357,685	422,244	286,186
Income tax reallocation	(49,180)	46,432	(29,691)	15,818	84,135	—
Financing costs and sundry	575	6,182	6,279	7,113	19,383	14,186
Funds from operations	\$ 229,288	\$ 353,519	\$ 465,791	\$ 546,226	\$ 812,266	\$ 309,739
Proceeds of issue of non-current debt	1,750,000	603,514	1,880,142	879,777	2,140,471	1,870
Repayment of advances to affiliate	(26,819)	33,105	(115,260)	16,890	5,909	31,575
	<u>\$1,952,469</u>	<u>\$ 990,138</u>	<u>\$2,230,673</u>	<u>\$1,442,893</u>	<u>\$2,958,646</u>	<u>\$ 343,184</u>
APPLICATION OF FUNDS						
Fixed asset additions (net)	152,274	106,951	1,034,326	1,364,770	2,827,281	253,138
Non-current debt repayments						
Normal amortization	67,232	153,175	150,552	205,630	205,378	179,476
Refinancing	1,838,838	—	1,413,875	—	—	—
Hotel opening and establishment costs	23,968	—	1,759	57,512	271,363	—
Dividends	—	—	—	46,000	90,000	—
Redemption of preference shares issued as stock dividends (including tax)	—	—	—	—	46,000	90,000
Special refundable tax	—	—	—	8,295	4,124	(1,500)
	<u>\$2,082,312</u>	<u>\$ 260,126</u>	<u>\$2,600,512</u>	<u>\$1,682,207</u>	<u>\$3,444,146</u>	<u>\$ 521,114</u>
INCREASE (DECREASE) IN WORKING CAPITAL DEFICIT...	\$ 129,843	\$ (730,012)	\$ 369,839	\$ 239,314	\$ 485,500	\$ 177,930

The notes to consolidated financial statements are an integral part of these statements.

Skyline Hotels Limited and Wholly Owned Subsidiary
Notes to Consolidated Financial Statements

NOTE 1 PRO FORMA BALANCE SHEETS

- (1) The pro forma consolidated balance sheet after share issue and debenture issue gives effect at June 30, 1968, to the following transactions:
 - (a) By supplementary letters patent dated September 12, 1968
 - (i) The change of the company's name to Skyline Hotels Limited,
 - (ii) The subdivision of each issued and unissued common share into 175 new common shares without par value,
 - (iii) The conversion of the authorized but unissued 3,704 preference shares with a par value \$100 each into 3,704 common shares without par value, and
 - (iv) The increase of the authorized common shares to 3,000,000.
 - (b) The proposed issue of 420,000 common shares for an aggregate consideration of \$2,751,000 pursuant to an underwriting agreement dated August 27, 1968.
 - (c) The proposed issue of approximately \$3,400,000 debenture, 9.98% due five years after advance of funds on or before January 31, 1969, for an aggregate consideration of \$3,400,000 pursuant to a written offer to purchase received from an institutional investor, dated September 13, 1968.
 - (d) The application of the proceeds of the transactions described in (b) and (c) to:
 - (i) The payment of estimated costs of \$49,000 in connection with the transactions and the charging of these costs to "Unamortized Financing Costs",
 - (ii) The repayment of present debentures amounting to \$2,398,020 at June 30, 1968,
 - (iii) The repayment of the third mortgage payable of \$750,000,
 - (iv) The repayment of notes payable aggregating \$21,000,
 - (v) The appropriation of \$773,104 as funds reserved for the new tower addition to the Skyline Hotel (Toronto), and
 - (vi) The addition to working capital of the remaining net proceeds amounting to \$2,159,876 of which \$473,263 will be applied in reduction of bank indebtedness and \$1,000,000 in reduction of accounts payable.
 - (e) The elimination of "goodwill on consolidation" of \$86,280 by a charge to retained earnings in this amount.
- (2) The pro forma consolidated balance sheet after issue of first mortgage bonds gives effect at June 30, 1968, to the following transactions:
 - (a) The transactions referred to in part (1) of this note.
 - (b) The proposed issue of \$4,000,000 first mortgage bonds, 9% due 1989 for an aggregate consideration of \$4,000,000 pursuant to written offers to purchase received from institutional investors dated August 28, September 9, September 20, October 2 and October 8, 1968 respectively.
 - (c) The application of the proceeds of the transaction described in (b) to:
 - (i) The payment of estimated costs of \$9,500 in connection with the transaction and the charging of these costs to "Unamortized Financing Costs",
 - (ii) The repayment of the present first mortgage amounting to \$1,513,604 at June 30, 1968,
 - (iii) The construction and furnishing of a 240-room tower addition to the Skyline Hotel (Toronto) at a cost estimated by management of \$3,250,000 (excluding preliminary costs of \$64,429 incurred to June 30, 1968), for which funds aggregating \$773,104 had been previously set aside. The company has entered into agreements with Janin Building & Civil Works Ltd. dated September 18, 1968 and October 23, 1968 for the entire cost of the addition, excluding furnishings and architects' fees, in the amounts of \$660,000 and \$2,053,000. The cost of the furnishings and the balance of the architects' fees are estimated by management not to exceed \$537,000.

NOTE 2 BASIS OF CONSOLIDATION AND ACCOUNTING PRESENTATION

- (a) The consolidated financial statements and pro forma balance sheets include the accounts of the company and its wholly owned subsidiary, Skyline Hotels (Montreal) Limited, after elimination of inter-company transactions. The subsidiary was acquired by the company on December 31, 1962.
- (b) The statements of consolidated earnings, retained earnings, and source and application of funds have been restated from those previously reported to give effect throughout the five year period to the retroactive adjustment of the rate of building depreciation from a 40 year life ($2\frac{1}{2}\%$) to a 60 year life ($1\frac{2}{3}\%$), as adopted by the company in 1968, and to reflect income tax reductions arising from tax losses in the year in which the tax loss occurred, as follows:

	Decrease in Depreci- ation	Decrease (Increase) in Income Taxes	Net Increase (Decrease) in Net Earnings
Year ended December 31, 1963.....	\$22,700	\$49,180	\$71,880
1964.....	22,156	(46,432)	(24,276)
1965.....	24,797	29,691	54,488
1966.....	32,252	(15,818)	16,434
1967.....	35,510	(84,135)	(48,625)
Six months ended June 30, 1967.....	17,533	(10,528)	7,005

NOTE 3 FIXED ASSETS

The fixed assets appear at replacement value as appraised by Dominion Appraisal Company in June 1962 with subsequent additions at cost, less depreciation reflected by the appraisal and subsequent provision to date as follows:

	Gross	Accumulated Depreciation	Net
Land.....	\$ 390,753	—	\$ 390,753
Paving.....	107,656	\$ 32,506	75,150
Buildings.....	4,417,765	532,385	3,885,380
Leasehold improvements.....	1,078,299	128,706	949,592
Equipment.....	4,498,282	1,393,932	3,104,351
Automobiles.....	15,322	4,669	10,653
Preliminary costs re new tower.....	64,429	—	64,429
	<u>\$10,572,506</u>	<u>\$2,092,198</u>	<u>8,480,308</u>
Tableware, linen and uniforms.....			407,986
			<u>\$8,888,294</u>

NOTE 4 ASSETS PLEDGED

As collateral security for their bank indebtedness the company and its subsidiary have made general assignments of book debts and the company had hypothecated 4,900 common shares of its subsidiary which were released subsequent to June 30, 1968.

NOTE 5 LONG-TERM DEBT

		Pro forma after share issue and debenture issue	Pro forma after issue of first mortgage bonds
First mortgage bonds, 9% due 1989, open for re-negotiation of terms by either mortgagor or mortgagee at end of 10 years and at end of 15 years, requiring blended monthly payments of principal and interest of \$35,570.....	—	—	\$4,000,000
First mortgage, 7½% due 1973.....	\$1,513,604	\$1,513,604	—
Debenture, 9.98% due five years after advance of funds on or before January 31, 1969, secured by a second mortgage of real estate and equipment of Skyline Hotel (Toronto) and a floating charge on the other assets of the company, except the furnishings and equipment at Skyline Hotel (Brockville), requiring blended monthly payments of principal and interest of \$36,077 based upon a 15 year amortization, with a final payment of \$2,791,599.....	—	3,400,000	3,400,000
Debenture, 9¼% due 1975.....	1,605,361	—	—
Debenture, 9½% due 1975.....	792,659	—	—
Third mortgage, 12% due 1969.....	750,000	—	—
Conditional sales agreements, 12% due 1972, requiring blended monthly payments of principal and interest of \$18,660 and a final payment of \$489,988 in 1972.....	1,041,326	1,041,326	1,041,326
Notes payable, 8%.....	21,000	—	—
Instalment contracts secured by retention of title to equipment and requiring varying monthly payments until 1972.....	311,074	311,074	311,074
	<u>\$6,035,024</u>	<u>\$6,266,004</u>	<u>\$8,752,400</u>

NOTE 6 CAPITAL STOCK

Authorized		Pro forma
3,704, 6%, non-cumulative, non-voting preference shares, redeemable at \$110, par value \$100 (pro forma — nil).....		
5,400 common shares without par value (pro forma — 3,000,000).....		
Issued		
4,000 common shares (pro forma — 1,120,000).....	\$1,030	\$2,752,030

NOTE 7 DEPRECIATION AND AMORTIZATION

Depreciation for the period covered by the consolidated statement of earnings was provided at the following rates:

Paving	— 4% of cost
Building	— 1½% of cost (see note 2)
Leasehold improvements	— amortized over term of lease (including, in the case of Ottawa, term of renewal options)
Equipment	— 10% of cost
Automobiles	— 30% of net book value

Opening and establishment costs for each hotel are being amortized over a ten year period commencing in the fiscal period following each hotel opening, as follows:

	<i>Period of Amortization</i>	Unamortized Balance June 30, 1968
Ottawa	Sept. 1, 1968 — Aug. 31, 1978	\$328,875
Montreal	Jan. 1, 1962 — Dec. 31, 1971	46,163
Brockville	Jan. 1, 1963 — Dec. 31, 1972	35,077
		<u>\$410,115</u>

<i>Summary</i>	Depreciation of Fixed Assets	Amortization of Hotel Opening and Establishment Costs	Total
Year ended December 31, 1963.....	\$266,688	\$19,469	\$286,157
1964.....	281,141	19,469	300,610
1965.....	295,128	19,470	314,598
1966.....	338,215	19,470	357,685
1967.....	402,775	19,469	422,244
Six months June 30, 1967.....	174,176	9,668	183,884
1968.....	276,466	9,720	286,186

NOTE 8 INCOME TAXES

In arriving at reported earnings, income taxes have been included on the basis of taxes paid for the various years, and in respect of years not yet assessed are considered to be adequate. As a result of claiming capital cost allowances and other amounts for income tax purposes in excess of depreciation and amortization recorded in the accounts, income taxes otherwise payable have been reduced by an accumulated amount of \$558,803 to June 30, 1968.

If deferred tax accounting had been followed by the company, income taxes and net earnings would have been as follows:

	Income Taxes	Earnings for the period
Year ended December 31, 1963.....	\$ (50)	\$(57,394)
1964.....	42,009	4,718
1965.....	75,917	77,047
1966.....	113,712	75,766
1967.....	184,957	177,632
Six months ended June 30, 1967.....	137,188	137,358
1968.....	24,225	(14,858)

NOTE 9 LONG-TERM LEASES

The company and its subsidiary have contractual obligations in respect of three long term leases of hotel real estate having varying expiry dates from 1983 to 1991, of which two contain options to renew for further periods. The rentals incurred in respect of these obligations for the year ended December 31, 1967 aggregated \$610,706; the minimum rentals to be incurred during each of the five years ending December 31, 1972 will aggregate \$1,236,373.

NOTE 10 CONTINGENT LIABILITIES

- (a) The company has instituted an action for damages of \$100,000 against a supplier for breach of contract in respect of equipment which has not been accepted by the company. The supplier has counterclaimed for \$56,765, being the unpaid amount of the contract and alleged damages suffered by it, plus interest, and has also instituted a mechanics' lien action.
- (b) It is possible that licence transfer fee provisions of The Liquor Licence Act of Ontario could be deemed to apply as a result of the issue of the 420,000 common shares of the company. If applicable, the fees payable are estimated at about \$175,000.
- (c) Until November 17, 1971 the company is contingently liable with others as joint and several guarantors of the first mortgage debt of Campeau Corporation Limited on the Place de Ville complex in Ottawa, the principal amount of which is about \$22,050,000. The company is advised by Campeau Corporation Limited that, of the total rentable area in the complex, excluding the portion covered by the company's lease, 99% is leased under leases expiring after November 17, 1971 of which 90% is leased to the federal government, and that the annual net operating income from the complex is well in excess of the annual principal and interest payments under the mortgage.

Auditors' Report

To the Directors of
SKYLINE HOTELS LIMITED

We have examined the consolidated balance sheet and pro forma balance sheets of Skyline Hotels Limited and wholly owned subsidiary as at June 30, 1968 and the consolidated statements of earnings, retained earnings and source and application of funds for the five years and six months ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion:

- a) The accompanying consolidated balance sheet presents fairly the financial position of the companies as at June 30, 1968;
- b) Subject to the company obtaining firm commitments to effect the balance of the transaction detailed in section 2 (c) (iii) in note 1 at the cost estimated by management, the accompanying consolidated pro forma balance sheets present fairly the financial position of the companies as at June 30, 1968 after giving effect to all the changes set forth in note 1;
- c) The accompanying consolidated statements of earnings and retained earnings present fairly the results of operations of the companies for the five years and six months ended June 30, 1968;
- d) The accompanying consolidated statement of source and application of funds presents fairly the information set out therein for the five years and six months ended June 30, 1968;

all in accordance with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change in the rate of depreciation on buildings, as explained in note 2 to the financial statements, which we approve.

Toronto
October 23, 1968.

(Signed) PERLMUTTER, ORENSTEIN, GIDDENS, NEWMAN & Co.
Chartered Accountants

Certificate of Company

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 7 of The Securities Act, 1967 (Alberta), by Part VII of The Securities Act, 1966 (Ontario) and the regulations thereunder.

Dated: October 23, 1968

(Signed) W. R. HODGSON
Chief Executive Officer

(Signed) C. A. McKECHNIE
Chief Financial Officer

On behalf of the Board

(Signed) J. C. DeCAEN
Director

(Signed) FRANK F. HULL
Director

Underwriter

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 7 of The Securities Act, 1967 (Alberta), by Part VII of The Securities Act, 1966 (Ontario) and the regulations thereunder.

STANDARD SECURITIES LIMITED

By: (Signed) S. J. ELLIS

MOSS, LAWSON & CO. LIMITED

By: (Signed) D. T. GRAY

The following includes the names of all persons having an interest directly or indirectly to the extent of not less than 5% in the capital of:

Moss, Lawson & Co. Limited: D. G. Lawson, T. J. O'Rourke, E. R. Hastie, D. T. Gray, S. E. Rodbard, E. M. Watson, R. G. B. Clarke and A. D. Air.

Standard Securities Limited: E. E. Lewis, J. Gardon, J. G. Lewis, M. Kessler, J. Kinross, H. W. Norrington, G. R. Winthrope and R. C. C. Henson.

Message from the President

This is my first Annual Report to the Shareholders since our Company became a public corporation last October.

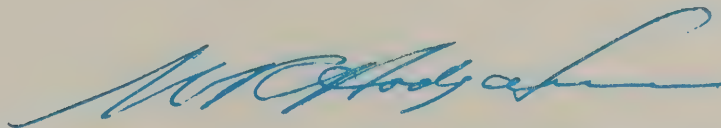
1968 was a consolidation year for your Company after a large expansion program which involved the opening of the Skyline Hotel in Ottawa. The absorption of this hotel into your Company had the anticipated effect of decreasing profits by approximately \$500,000. The operation has now turned the corner and has shown a satisfactory profit picture to date in 1969.

The tower addition to the Skyline Hotel in Toronto was commenced during the latter part of 1968 and at the present time is well on its way towards completion. Subject to the settlement of the construction strike, this addition should be completed and opened by September 1st, 1969.

Your Company has been approached and is having discussion with governments and investment groups with regard to entering into management contracts to operate hotels in countries outside of Canada.

I am pleased to reaffirm, as previously stated in the first quarterly report, that 1969 has the outlook of being the most successful year in your Company's history as profits are substantially higher in all areas.

Yours truly,



W. R. Hodgson

President

June 6th, 1969.

Skyline Hotels Limited & Wholly Owned Subsidiary
Consolidated Balance Sheet

December 31st, 1968 with 1967 Comparisons

Assets		
CURRENT ASSETS	1968	1967
Cash	\$ 23,762	\$ 18,622
Deposit receipt	350,000	—
Accounts receivable	687,402	509,049
Inventories — at cost	323,417	341,893
Funds on deposit (note 3).....	998,966	—
Prepaid expenses and sundry assets	139,067	120,956
	<u>\$ 2,522,614</u>	<u>\$ 990,520</u>
 ADVANCES TO AFFILIATE	 <u>\$ —</u>	 <u>\$ 31,575</u>
 FIXED ASSETS (note 4)	 <u>\$ 8,582,650</u>	 <u>\$ 8,417,065</u>
 OTHER ASSETS		
Special refundable tax	\$ 10,729	\$ 12,419
Unamortized financing costs	80,343	90,954
Hotel opening and establishment costs (after amortization of \$134,230).....	389,435	419,835
Organization expenses	7,439	7,439
Share issue costs	69,263	—
Goodwill on consolidation	86,280	86,280
	<u>\$ 643,489</u>	<u>\$ 616,927</u>
Total assets	<u><u>\$11,748,753</u></u>	<u><u>\$10,056,087</u></u>

Approved on behalf of the Board:

(Signed) W. R. Hodgson, Director Director

(Signed) C. A. McKechnie, Director Director

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Skyline Hotels Limited and wholly owned subsidiary as at December 31st, 1968 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as was considered necessary in the circumstances.

In our opinion, except that the provision for income taxes has not been computed under the tax allocation basis as explained in note 9, these financial statements present fairly the financial position of the Companies at December 31st, 1968 and

Skyline Hotels Limited & Wholly Owned Subsidiary
Consolidated Balance Sheet

December 31st, 1968 with 1967 Comparisons

Liabilities

CURRENT LIABILITIES	1968	1967
Bank indebtedness (note 5).....	\$ 471,216	\$ 818,086
Accounts payable — trade	1,184,354	1,941,299
— construction	207,724	—
Notes payable	55,000	70,000
	<u>\$ 1,918,294</u>	<u>\$ 2,829,385</u>
LONG-TERM DEBT (note 6)	6,093,706	6,212,260
Total liabilities	<u>\$ 8,012,000</u>	<u>\$ 9,041,645</u>

Shareholders' Equity

CAPITAL STOCK (note 7)	\$ 2,752,030	\$ 1,030
RETAINED EARNINGS	984,723	1,013,412
	<u>\$ 3,736,753</u>	<u>\$ 1,014,442</u>
	<u>\$11,748,753</u>	<u>\$10,056,087</u>

The accompanying notes form an integral part of these consolidated financial statements.

the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the changes in accounting for fixed assets and depreciation as explained in note (a), and except for the change in accounting for tableware and linen as explained in note 2 (b), all of which changes we approve.

(Signed) PERLMUTTER, ORENSTEIN, GIDDENS, NEWMAN & Co.
Chartered Accountants

Toronto, May 12, 1969.

Skyline Hotels Limited & Wholly Owned Subsidiary
Consolidated Statement of Retained Earnings
Year Ended December 31st, 1968 with 1967 Comparisons

	1968	1967
BALANCE — January 1		
As previously reported	\$ 805,191	\$ 610,462
Retroactive adjustment of depreciation (note 2 (a))....	208,221	164,557
As restated	\$ 1,013,412	\$ 775,019
Add — Net earnings for the year	61,311	378,793
	<u>\$ 1,074,723</u>	<u>\$ 1,153,812</u>
DEDUCT — Dividends — cash	\$ —	\$ 90,000
— stock (including tax thereon).....	90,000	46,000
— Reduction in carrying value of advances to affiliate	—	4,400
	<u>\$ 90,000</u>	<u>\$ 140,400</u>
BALANCE — December 31	<u>\$ 984,723</u>	<u>\$ 1,013,412</u>

The accompanying notes form an integral part of these consolidated financial statements.

Skyline Hotels Limited & Wholly Owned Subsidiary
Consolidated Statement of Earnings
Year Ended December 31st, 1968 with 1967 Comparisons

	1968	1967
Sales	\$12,835,002	\$ 9,660,513
Cost of sales and operating expenses	<u>11,553,327</u>	<u>8,389,767</u>
Profit before interest, depreciation and amortization	<u>\$ 1,281,675</u>	<u>\$ 1,270,746</u>
Interest on long-term debt	\$ 568,322	\$ 445,122
Other interest	100,444	40,791
Depreciation and amortization (note 8)	<u>551,598</u>	<u>414,090</u>
	<u>\$ 1,220,364</u>	<u>\$ 900,003</u>
Earnings before income taxes and extraordinary item	\$ 61,311	\$ 370,743
Income taxes (note 9)	<u>—</u>	<u>76,085</u>
Earnings before extraordinary item.....	\$ 61,311	\$ 294,658
Extraordinary item		
Income tax reduction resulting from prior years' tax losses	<u>—</u>	<u>84,135</u>
NET EARNINGS (note 9)	<u><u>\$ 61,311</u></u>	<u><u>\$ 378,793</u></u>

The accompanying notes form an integral part of these consolidated financial statements.

Skyline Hotels Limited & Wholly Owned Subsidiary
Consolidated Statement of Source and Application of Funds
Year Ended December 31st, 1968 with 1967 Comparisons

	1968	1967
SOURCE OF FUNDS		
Net earnings for the year.....	\$ 61,311	\$ 378,793
Add — Charges not requiring outlay of funds		
Depreciation and amortization	551,598	414,090
Amortization of financing costs	30,886	19,383
Funds from operations	<u>\$ 643,795</u>	<u>\$ 812,266</u>
Proceeds of issue of non-current debt	3,347,608	2,140,471
Proceeds of share issue	2,751,000	—
Repayment of advances to affiliate	31,575	5,909
	<u>\$6,773,978</u>	<u>\$2,958,646</u>
APPLICATION OF FUNDS		
Fixed asset additions (net)	\$ 686,783	\$2,827,281
Non-current debt repayments		
Normal amortization	389,277	205,378
Refinancing	3,094,055	—
Hotel opening and establishment costs	—	271,363
Dividends	—	90,000
Redemption of preference shares issued as stock dividends (including tax)	90,000	46,000
Share issue costs	69,263	—
Sundry	1,415	4,124
	<u>\$4,330,793</u>	<u>\$3,444,146</u>
INCREASE (DECREASE) IN WORKING CAPITAL.....	<u><u>\$2,443,185</u></u>	<u><u>(\$ 485,500)</u></u>

The accompanying notes form an integral part of these consolidated financial statements.

Skyline Hotels Limited & Wholly Owned Subsidiary
Notes to Consolidated Financial Statements

December 31st, 1968

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Skyline Hotels (Montreal) Limited, after elimination of inter-company transactions.

2. ACCOUNTING CHANGES AND RESTATEMENTS

- (a) The Company has retroactively restated its fixed assets and related depreciation to an historical cost basis, thereby eliminating the appraisal increase of \$547,440 recorded in 1962. In addition, retroactive effect has also been given to an adjustment of the rate of building depreciation from a 40 year life (2½%) to a 60 year life (1⅓%) as adopted by the Company in 1968. As a result of the foregoing changes, the balance of retained earnings at December 31, 1967 has been restated from that previously reported to reflect prior years' depreciation reductions of \$208,221. Of this amount, \$43,664 is applicable to 1967 and has been reflected as a reduction of depreciation expense for that year; the balance, \$164,557 is applicable to years prior to 1967 and has been credited to retained earnings at January 1, 1967.
- (b) The Company has previously accounted for tableware and linen by means of physical inventories and has now adopted a par stock method of accountability under which all replacements in this category are expensed, other than increases in the par stock due to increased facilities. As a result of this change, the net profit for the year has been increased by \$45,985.

3. FUNDS ON DEPOSIT

On December 31, 1968 the Company placed \$998,966 on deposit with the holder of its conditional sales agreement obligations (note 6). This deposit earns interest at 12% per annum, and is repayable on ninety days notice given by the Company at any time after June 30, 1969. In the interim, instalment payments falling due under the conditional sales agreements will be met from the funds on deposit.

4. FIXED ASSETS (note 2 (a))	Cost	Accumulated depreciation	Net
Land	\$ 155,796	\$ —	\$ 155,796
Paving	138,565	36,970	101,595
Buildings	4,428,791	665,504	3,763,287
Leasehold improvements	1,093,689	145,940	947,749
Equipment	4,448,152	1,640,695	2,807,457
Automobiles	13,245	4,207	9,038
Construction in progress	369,393	—	369,393
	<u>\$10,647,631</u>	<u>\$2,493,316</u>	<u>\$8,154,315</u>
Tableware, linen and uniforms (note 2 (b))			408,953
Deposit on equipment			19,382
			<u>\$8,582,650</u>

5. ASSETS PLEDGED

As collateral security for their bank indebtedness the Comany and its subsidiary have made general assignments of book debts.

6. LONG-TERM DEBT	1968	1967
First mortgage, 7½%, due 1973 (note 11 (c))	\$1,485,210	\$1,540,971
Debenture, 9.98%, due 1974 (secured) requiring blended monthly payments of principal and interest of \$35,484 with a final payment of \$2,745,642 in 1974	3,344,054	—
Conditional sales agreements, 12%, due 1972 requiring blended monthly payments of principal and interest of \$18,660 and a final payment of \$489,988 in 1972 (note 3)	993,153	1,086,204
Instalment contracts secured by retention of title to equipment and requiring varying monthly payments until 1972	271,289	354,503
Other debt discharged in 1968	—	3,230,582
	<u>\$6,093,706</u>	<u>\$6,212,260</u>

7. CAPITAL STOCK

Authorized

3,000,000 common shares without par value

Issued and fully paid

1,120,000 common shares (of which 420,000 shares were issued during the year for \$2,751,000 cash)

\$2,752,030

8. DEPRECIATION AND AMORTIZATION	1968	1967
Depreciation of fixed assets	\$521,198	\$394,621
Amortization of hotel opening and establishment costs	30,400	19,469
	<u>\$551,598</u>	<u>\$414,090</u>

Depreciation was provided at the following rates :

Paving	—	4% of cost
Building	—	1 $\frac{2}{3}$ % of cost (note 2 (a))
Leasehold improvements	—	amortized over term of lease (including, in one case, term of renewal options)
Equipment	—	10% of cost
Automobiles	—	30% of net book value

Opening and establishment costs for each hotel are being amortized over a ten year period commencing in the fiscal period following each hotel opening.

9. INCOME TAXES

The Company and its subsidiary claim capital cost allowances and other deductions allowed for income tax purposes in excess of the related amounts reflected in the accounts, but provide in their accounts only for taxes payable on their taxable income for the year.

This accounting treatment differs from the tax allocation basis under which the income tax provision is based on income reported in the accounts. If the tax allocation basis had been followed in the current and prior years, net earnings for the year would have been reduced by \$23,764 (\$108,872 in 1967) and the cumulative amount of deferred tax credits to December 31, 1968 would have been \$540,090.

For income tax purposes, the Company and its subsidiary have tax losses and additional optional tax write offs aggregating approximately \$1,060,000 available to offset future years' taxable income.

10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid by the Company and its subsidiary to the directors and senior officers for 1968 was \$110,390 (\$114,440 in 1967).

11. COMMITMENTS

- (a) The Company and its subsidiary have contractual obligations in respect of three long-term leases of hotel real estate having varying expiry dates from 1983 to 1991, of which two contain options to renew for further periods. The rentals incurred in respect of these obligations for the year ended December 31, 1968 aggregated \$1,236,373 (\$610,706 in 1967). The minimum rentals to be incurred in each of the years 1969 to 1982 will aggregate \$1,236,373.
- (b) The Company has under construction a 12 storey tower addition to Skyline Toronto which will provide for larger public facilities and 240 guest rooms. The cost of the addition, including furnishings, is estimated by management at approximately \$3,500,000, of which \$369,393 is reflected in the accompanying financial statements as construction in progress.
- (c) The Company has obtained from institutional investors written offers to purchase at par \$4,000,000 of the Company's first mortgage bonds. The Company anticipates that the conditions of these offers, among which are included the approval of title and all other legal matters and the due sale of the entire \$4,000,000 issue will be duly fulfilled, and intends to issue and sell the bonds in the latter part of 1969, or early in 1970. The proceeds after expenses of issue will be used to retire the existing first mortgage, and for the Toronto expansion programme. The mortgage bonds will bear interest at 9% and mature in 1989, subject to renegotiation of terms by either mortgagor or mortgagee at the end of 10 and 15 years, and will require blended monthly payments of principal and interest of \$35,570.

12. CONTINGENT LIABILITIES

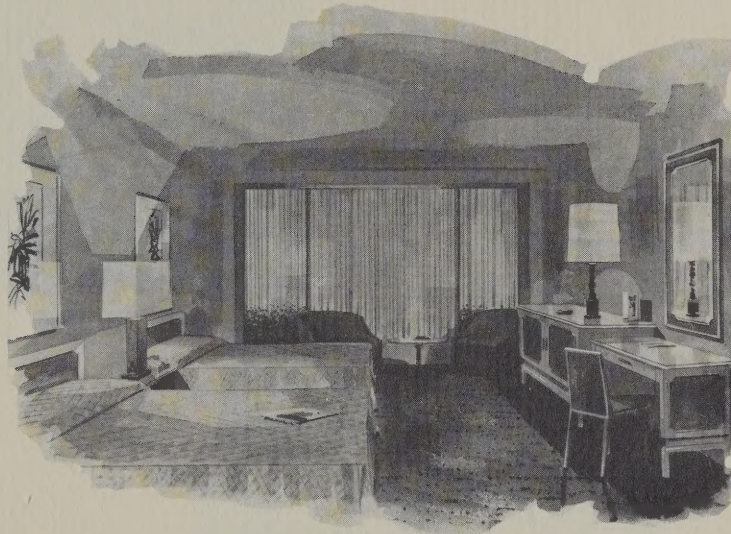
- (a) It is possible that license transfer fee provisions of the Liquor Act of Ontario could be deemed to apply as a result of the issue of the 420,000 common shares of the Company. If applicable, the fees payable are estimated at about \$175,000.
- (b) Until November 17, 1971 the Company is contingently liable with others as joint and several guarantors of the first mortgage debt of Campeau Corporation Limited on the Place de Ville complex in Ottawa, the principal amount of which is about \$22,050,000. The Company is advised by Campeau Corporation Limited that, of the total rentable area in the complex, excluding the portion covered by the Company's lease, 99% is leased under leases expiring after November 17, 1971 of which 90% is leased to the federal government, and that the annual net operating income from the complex is well in excess of the annual principal and interest payments under the mortgage.

THE NEW TOWER SKYLINE TORONTO

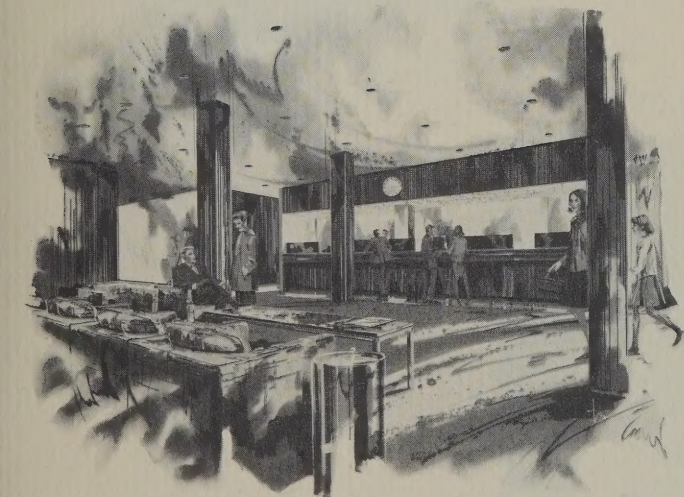
Artists' illustrations of a few of the new rooms, lobbies, entertainment areas and lounges which will become part of the new Toronto Hotel complex scheduled for completion September 1969.



THE NEW CLOUD ROOM
(Main Dining Room)



A Typical Guest Room



The west section of the new lobby showing
the Registration Desk



One view of "The Runway 23 Lounge", located on the twelfth
floor of the Tower

SKYLINE HOTELS LIMITED

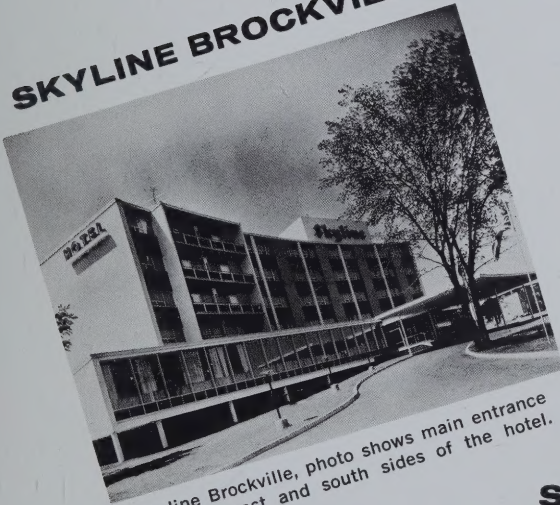
The Canadian Chain

SKYLINE TORONTO



A montage of Skyline Toronto with the tower shown in position.

SKYLINE BROCKVILLE



Skyline Brockville, photo shows main entrance plus the east and south sides of the hotel.

SKYLINE MONTREAL



Skyline Montreal looking south from the new Cote de Liesse Boulevard.

SKYLINE OTTAWA



Skyline Ottawa showing the canopied main entrance. Photo taken from the north west looking toward the center of the City.

